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# TAXATION AND THE ARTS

A Guide to Proposed Changes in the Tax Treatment  
of Artists, Arts Organizations and Patrons

1984 to 1987



Research & Evaluation  
Canada Council  
January 1987

## Introduction

This Guide has been designed to assist individuals and organizations concerned with proposed changes in the tax treatment of artists, arts organizations, and patrons of the arts. Such changes have been recommended in at least five task forces and special committee reports at the national level during the past three years. The Guide is divided into two parts. The first classifies proposed changes according to major tax issues. The second part of the Guide lists recommendations in the order they appear in the original reports. Some proposed changes are self-explanatory. Others are not. Readers are accordingly advised to consult source documents for a more complete appreciation of proposed changes.

The five source documents used to prepare this Guide are:

**The Canadian Artist and the Income Tax Act**, Canada Council, Ottawa, February 1984.

**Report of the Sub-Committee on the Taxation of Visual and Performing Artists**, Standing Committee on Communications and Culture, Ottawa, June 1984.

**Funding of the Arts in Canada to the Year 2000**, Report of the Task Force on Funding the Arts, Ottawa, June 1986.

**The Status of the Artists**, Report of the Task Force on the Status of the Artist, Ottawa, August 1986.

**Taxation of the Artist and the Arts**, A Report of the Standing Committee on Communications and Culture, House of Commons, Ottawa, January 1987.

In spite of its inherent limitations, it is hoped that this Guide will assist individuals and organizations concerned with the very important questions involving the tax treatment of artists, arts organizations and patrons. Errors and omissions are the responsibility of the author. Questions and comments should be directed to:

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**PART I**  
**CLASSIFICATION BY TAX ISSUE**

ISSUE	THE CANADIAN ARTIST AND THE INCOME TAX ACT February 1984	REPORT OF THE SUB-COMMITTEE ON THE TAXATION OF VISUAL AND PERFORMING ARTISTS June 1984	FUNDING OF THE ARTS IN CANADA TO THE YEAR 2000 June 1986	THE STATUS OF THE ARTIST August 1986	TAXATION OF ARTISTS AND THE ARTS January 1987
GENERAL	---	<p>1. That the Department of Finance develop expertise in taxation policies relating to artists, and that Revenue Canada, Taxation develop and publicize guidelines and educate field personnel in the principles to be applied to the taxation of visual and performing artists and writers.</p> <p>2. That the pre-budget consultation process with the Minister of Finance be expanded to include the arts community.</p> <p>3. That a consultation process be developed between Revenue Canada and the arts organizations to give the Department expertise in this field and to alert taxpayers in the arts about new issues in the administration of tax policies.</p>	---	<p>1. The Government of Canada, through the Minister of Communications, should immediately establish a National Advisory Committee on the Status of the Artist, and provide sufficient human and financial resources to effectively represent the Canadian artistic community to all levels of government in the development, implementation and monitoring of legislative or policy changes that affect the artistic profession.</p> <p>14. We recommend the formation of a standing joint committee with equal representation (Revenue Canada, Finance, Communications/ artistic community) to solve all the problems arising from interpretation of the <i>Income Tax Act</i> as it affects artists, their works and productions.</p>	---
ARTISTS <i>Accrual Accounting</i>	<p>2.0 We recommend that the <i>Income Tax Act</i> be amended to allow artists the use of the modified accrual basis of accounting structured similarly to that used by farmers and fishermen.</p>	<p>16. That consideration be given to statutory changes to permit artists to use the modified accrual system at their option.</p>	---	<p>2. We recommend that the unique nature of the artistic profession henceforth be recognized in the <i>Income Tax Act</i>, and that artists be granted a specific status similar to that of farmers and fishermen.</p> <p>6. We recommend that the <i>Income Tax Act</i> be amended to permit artists to use a modified accrual method for accounting purposes, similar to that used by farmers and fishermen.</p>	<p>4. That the <i>Income Tax Act</i> be amended to extend to professional artists the right to use block averaging and the modified accrual basis of accounting as is currently given to farmers and fisherman.</p>
Assessment Practices	---	<p>4. That Revenue Canada adopt the principle that full retroactivity in reassessing should not be strictly applied when a taxpayer's course of action was reasonable in all the circumstances, especially where a pattern of filing had been established upon which the taxpayer had been reasonably relying.</p>	---	---	---

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<i>Assessment Practices (cont'd)</i>	...	<p>5. That reassessments relating to the business losses project computed before April 1, 1984 be conducted on the same basis as those subsequent to that date regardless of the existence of waivers.</p> <p>29. That the form currently entitled "Notice of Assessment" be redesigned so that taxpayers will be adequately informed about the nature of the form and the powers of Revenue Canada to assess in detail at a later time.</p>	...	...	...
<i>Averaging</i>	<p>5.0 We recommend that the <i>Income Tax Act</i> be amended to allow an artist whose chief source of income involves artistic endeavours to elect to average income in five-year blocks.</p>	<p>26. That the government develop an averaging system for taxpayers with fluctuating incomes that will be available for those whose marginal rate of tax is below the maximum. The system should not involve an initial increase in cash payable.</p>	<p>58. a) Artists should be allowed to average their incomes on a five-year basis for income tax purposes.</p>	<p>5. We recommend that the <i>Income Tax Act</i> be amended to permit the artist to average that part of his or her income which is derived from artistic work over a period of five (5) years, as is now provided for specific occupational categories within the Act.</p>	<p>4. That the <i>Income Tax Act</i> be amended to extend to professional artists the right to use block averaging and the modified accrual basis of accounting as is currently given to farmers and fishermen.</p>
<i>Deductions</i>	<p>1.0 We recommend that Revenue Canada's current assessing practices be reviewed with respect to bona fide preproduction expenditures and that these expenses be deductible in the fiscal period in which they are incurred.</p> <p>4(b) that bona fide artists be allowed to deduct expenses related to the creation of their artistic works from other income, or if full deduction cannot be provided for, that annual limitations be allowed with carry forward provisions for excess expenditures which allow these to be applied to future income from artistic activities.</p>	<p>7. That section 111(1) of the <i>Income Tax Act</i> be amended to permit the deduction of losses from professional artistic activities.</p> <p>11. That all losses resulting from direct artistic or writing expenses be fully deductible.</p> <p>12. That indirect expenses normally carried by a taxpayer in any event be deductible only to the point where they reduce revenue to nil.</p>	<p>...</p>	<p>2. That section 111 of the <i>Income Tax Act</i> be amended so that losses by professional artists be deductible from other sources of income using the statutory equivalent of the special definition of "reasonable expectation of profit" now being applied administratively by Revenue Canada.</p> <p>3. That the <i>Income Tax Act</i> be amended to allow employed professional artists to deduct costs associated with artistic employment from their employment income.</p>	<p>...</p>

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Deductions (cont'd)	---	<p>21. That the cost of music, acting or general lessons be deductible for self-employed performers even if unrelated to a particular role.</p> <p>22. That section 8 of the Income Tax Act be amended to allow deductions of all expenses and capital cost allowance incurred by symphony musicians for the purchase and upkeep of their musical instruments.</p> <p>17. That Revenue Canada revise IT-312 to reflect the <u>Mermaid</u> case and clarify the role of duration in a contract.</p> <p>18. That the criteria listed in the Bulletin indicating employment and self-employed status be revised.</p> <p>19. That factors in the Bulletin allegedly indicating employment status but in fact essential to the organization of any group of performers, employees or not, be excluded.</p> <p>20. That the assumption of a heavy burden of expenses create a presumption of self-employment for all performing artists.</p> <p>23. That performing artists be eligible for unemployment insurance coverage regardless of their status for taxation purposes.</p> <p>23. That performing artists be eligible for unemployment insurance coverage regardless of their status for taxation purposes.</p>	<p>58 b) Musicians with employee status should be eligible for a capital cost allowance for the capital value of their instruments, and a deduction for the cost of the instrument's upkeep.</p> <p>...</p>	...	...
Dual Status	3.0 We recommend that either the dual status of artists be recognized as proposed in the Disney Report, or alternatively that provisions governing employee deductions be amended in the <i>Income Tax Act</i> to allow deductibility of extraordinary expenses which in the past usually have been associated with self-employed artists and performers.			<p>3. We recommend that the artist's dual status (employee and/or self-employed) be recognized and applied within the <i>Income Tax Act</i>, based on artists' needs.</p>	

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Exemptions	...	...	59 b) Artists should be allowed to pay their income tax during their lifetime with works of art they have created, assessed at fair market value.	4. We recommend that a level of non-taxable income be established below which the artist would not be taxed under the <i>Income Tax Act</i> . We suggest that this level of income be comparable to that granted to Canadian Members of Parliament (\$18,700 in 1986).  11. We recommend further that, in order to resolve all the problems posed by FST, a joint committee with equal representation (Revenue Canada, Finance, Communications/cultural community) be formed in the near future with the mandate to reach agreement on taxation, customs and excise matters, particularly regarding the issues raised in the Disney Report, in accordance with recommendation 31 of the Sub-committee on the Taxation of Visual and Performing Artists and Writers.	...
Grants	6.0 We recommend that Revenue Canada's current assessing practices be reviewed to recognize that: (a) Arts Grants "A", qualifying Arts Grants "B", Short-Term Grants, Project Cost Grants, and some Explorations Grants be treated as business income where applicable under s.9 of the Act, and all bona fide business expenses incurred on the project be deductible from related income with limitations applicable to other sources of income;	31. That the government consider the federal sales tax, customs and excise issues identified by the Disney Report with a view to resolving longstanding areas of complaint by the artists community.  15. That Revenue Canada be willing to assign a nil value to the inventory of professional visual artists.  27. That grants (other than educational grants) awarded to professional artists be treated as business income from which expenses can be deducted, subject only to the less limitations in Recommendation 12.  28. That Revenue Canada update IT-257 to reflect the changes in the nature of Canada Council grants following the 1978 formation of the Social Sciences and Humanities Research Council of Canada.	...	8. We recommend that project grants, awards and travel allowances be considered as business income and that the related expenses be deductible.  6. That project grants and travel allowances received by employed professional artists be treated for income tax purposes as income from business to allow them to offset costs associated with meeting the terms of getting the grants or allowances.	...

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<i>Grants (cont'd)</i>	(b) the travel allowances awarded by the Council when incurred for business purposes (that is, other than for study) are to be taken into income and the related expenses allowed as deductions therefrom.				
	<p>6.1 We recommend that in situations where the main purpose of the award is clearly educational no special treatment be accorded the artist.</p> <p>6.2 We recommend that Revenue Canada's current assessing practices be reviewed to recognize that Arts Grants "A", qualifying Arts Grants "B", Short-Term Grants, Project Cost Grants, and some Explorations Grants intended to provide free time for work on personal creative projects be treated consistently by the various district offices as business income as indicated in Recommendation 6.0, without either limiting the related expenses to the reasonable expectation of profit test or classifying the amounts as research grants and thereby limiting the expenses to the grant received.</p>				
<i>Professionalism</i>	...	<p>6. That in the future, where the professionalism of artists and writers is at issue and results in a changed view of their status, that the change be effective for that year and future years, not retroactively, provided their course of action was reasonable in the circumstances.</p> <p>8. That the criteria for professionalism be incorporated into an Interpretation Bulletin.</p>	...	<p>15. We endorse the adoption of the "indicator matrix" as shown in Appendix B of the report of the Sub-committee on the Taxation of Visual and Performing Artists and Writers concerning the criteria to be used in the definition of the professional artist.</p>	<p>1. That the <i>Income Tax Act</i> be amended to define the term "professional artist" in line with the criteria set out in Revenue Canada's Interpretation Bulletin IT-504 and to define such other related terms as might be required.</p>

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<i>Professionalism (cont'd)</i>		<p>9. That the professionalism test define reasonable expectation of profit in the context of the visual arts and writing.</p> <p>10. That the professionalism test de-emphasize the timing of profits and include the existence of revenue as only one of a number of other criteria.</p> <p>13. That Revenue Canada utilize the criteria of professionalism as an interpretative aid.</p> <p>14. That if that is not feasible, the government amend the <i>Income Tax Act</i> to permit the flexibility which would result from the application of the criteria.</p>			
<i>Profit Test</i>	<p>4.0 Based on the data presented above, we strongly recommend that the <i>Income Tax Act</i> be amended to provide the following:</p> <p>a) that the reasonable expectation of profit test not be applied to bona fide artists;</p>	...	...	<p>7. We recommend that</p> <p>a) The <i>Income Tax Act</i> be amended so that the artist would no longer be subject to the criterion of reasonable expectation of profit;</p> <p>b) Until the <i>Income Tax Act</i> is amended in accordance with a), any artist, regardless of taxation status, be allowed to deduct expenses, costs and losses incurred in art production from any income sources. The artist should also be allowed to deduct legitimate expenses incurred to maintain the currency of professional skills.</p>	...

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ARTS ORGANIZATIONS <i>Collective Bargaining</i>	...	...	...	<p>16. We recommend that</p> <p>a) Within the next session of Parliament, legislation should be enacted to recognize organizations representing self-employed professional artists as collective bargaining agents. This should include the necessary administrative mechanisms required to apply such legislation.</p> <p>b) The departments of Justice and Consumer and Corporate Affairs should declare a moratorium on the investigation of artistic organizations involved in collective bargaining under the provisions of the <i>Combines Investigation Act</i> until legislation granting collective bargaining rights to such organizations is enacted.</p>	...
Status	...	...	60. The <i>Income Tax Act</i> should be amended to include registered Canadian arts organizations as eligible recipients of tax-deductible charitable donations.	<p>12. We recommend that the <i>Income Tax Act</i> be amended so that cultural and artistic organizations dedicated to national cultural development can avail themselves of the same privileges now granted to charitable organizations.</p>	5. That organizations designed to promote the arts and the welfare of artists be accorded special status under the <i>Income Tax Act</i> which would allow them to issue receipts giving tax deductions for gifts, in the same way as registered Canadian amateur athletic associations do now.
PATRONS OF THE ARTS	...	...	...	<p>13. We recommend that general and generous tax incentives be established to encourage cultural investment for individuals as well as for large and small businesses.</p>	...
Artists as Patrons	...	30. That the tax system provide financial incentives for visual artists to donate their own works of art to charity.	...	<p>9. We recommend that for donations and legacies, Revenue Canada grant artists the same privileges currently available to collectors, that tax legislation provide financial incentives to encourage artists</p>	...

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Artists as Patrons (cont'd)				to donate their works to charitable organizations, and we further recommend that the maximum deductible limit for income tax purposes be removed	
Death Duties			<p>49. The purchasers of life insurance policies, in which arts endowment funds are named as beneficiaries, should receive an additional tax measure, on death, equal to the difference between the face amount of the policy and an indexed figure for the premiums previously paid and deductible in calculating taxable income</p> <p>59 a) Governments should allow for the payment of a deceased person's taxes with works of art, assessed at fair market value</p>		
Deductions			<p>53. The Income Tax Act should provide for the deduction of certain non-reimbursed volunteers' expenses</p> <p>55 a) Fifty per cent of the cost of individual subscriptions to Canadian performing arts series of non-profit arts organizations and to Canadian literary and art periodicals, and of the cost of individual and family memberships in Canadian museums and public art galleries should be deductible from income tax</p> <p>b) Fifty per cent of the cost of the purchase by an individual of an original work of art of a living Canadian artist that has not been previously sold, should be a deductible expense for income tax purposes, up to a total of \$2,500 in any one calendar year</p>	<p>8. That steps be taken by the Government to examine the entire issue of the deductibility of charitable donations, including gifts to arts-oriented groups, with a view to increasing private donations and encouraging volunteerism</p>	

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<i>Donations</i>	---	--	<p>48. a) Donations to arts endowment funds should be eligible for an income tax deduction of 125 per cent of the value of the donation</p> <p>b) Three-year pledges for the operations of the arts should be eligible for an income tax deduction of 125 per cent of the annual amount of the pledge</p> <p>52. The <i>Canadian Cultural Property Export and Import Act</i> should be amended to specifically provide for the deduction of gifts of undivided interest in designated cultural property</p> <p>54. The maximum deductible limit now applicable to charitable donations for income tax purposes should be removed</p>		
<i>Exemptions</i>			<p>50. Gifts of Canadian cultural property should be specifically excluded from the computation of net income under the alternative minimum tax.</p> <p>51. The appreciation on tangible and intangible property donated to non-profit arts organizations should be exempt from capital gains tax</p> <p>56. a) Original prints by Canadian artists should be exempt from federal sales tax</p> <p>b) Provincial sales tax should not apply to purchases of Canadian works of art</p> <p>c) Publicly supported arts organizations should be exempt from amusement taxes.</p>	<p>10. We recommend that federal sales tax (FST) on limited edition prints and serigraphs be abolished</p>	<p>7. That serigraphs and limited edition prints should be exempt from federal sales tax</p>
<i>Tax Credit</i>			<p>47. A tax credit for donations to charities should be established in lieu of their deduction from income. For individuals the tax credit should be equal to the maximum marginal tax rate; for large and small businesses, the tax credit should be equal to the top level of corporate tax</p>		

**PART II**  
**LIST OF RECOMMENDATIONS**

THE CANADIAN ARTIST AND THE INCOME TAX ACT February 1984	REPORT OF THE SUB-COMMITTEE ON THE TAXATION OF VISUAL AND PERFORMING ARTISTS June 1984	FUNDING OF THE ARTS IN CANADA TO THE YEAR 2000 June 1986	THE STATUS OF THE ARTIST August 1986	TAXATION OF ARTISTS AND THE ARTS January 1987
<p><b>Summary of Recommendations</b></p> <p>1.0 We recommend that Revenue Canada's current assessing practices be reviewed with respect to bona fide preproduction expenditures and that these expenses be deductible in the fiscal period in which they are incurred.</p> <p>1.2.0 We recommend that the <i>Income Tax Act</i> be amended to allow artists the use of the modified accrual basis of accounting structured similarly to that used by farmers and fishermen.</p> <p>3.0 We recommend that either the dual status of artists be recognized as proposed in the Disney Report, or alternatively that provisions governing employee deductions be amended in the <i>Income Tax Act</i> to allow deductibility of extraordinary expenses which in the past usually have been associated with self-employed artists and performers.</p> <p>4.0 Based on the data presented above, we strongly recommend that the <i>Income Tax Act</i> be amended to provide the following:</p> <ul style="list-style-type: none"> <li>(a) that the reasonable expectation of profit test not be applied to bona fide artists;</li> <li>(b) that bona fide artists be allowed to deduct expenses related to the creation of their</li> </ul>	<p><b>Introduction</b></p> <ol style="list-style-type: none"> <li>1. That the Department of Finance develop expertise in taxation policies relating to artists, and that Revenue Canada, Taxation develop and publicize guidelines and educate field personnel in the principles to be applied to the taxation of visual and performing artists and writers</li> <li>2. That the pre-budget consultation process with the Minister of Finance be expanded to include the arts community</li> <li>3. That a consultation process be developed between Revenue Canada and the arts organizations to give the Department expertise in this field and to alert taxpayers in the arts about new issues in the administration of tax policies</li> <li>4. That Revenue Canada adopt the principle that full retroactivity in re-assessing should not be strictly applied when a taxpayer's course of action was reasonable in all the circumstances, especially where a pattern of filing had been established upon which the taxpayer had been reasonably relying.</li> </ol>	<p><b>Chapter 9: Tax Policy and Arts Funding</b></p> <ol style="list-style-type: none"> <li>47. A tax credit for donations to charities should be established in lieu of their deduction from income. For individuals the tax credit should be equal to the maximum marginal tax rate; for large and small businesses, the tax credit should be equal to the top level of corporate tax</li> <li>48. a) Donations to arts endowment funds should be eligible for an income tax deduction of 125 per cent of the value of the donation b) Three-year pledges for the operations of the arts should be eligible for an income tax deduction of 125 per cent of the annual amount of the pledge.</li> <li>49. The purchasers of life insurance policies, in which arts endowment funds are named as beneficiaries, should receive an additional tax measure, on death, equal to the difference between the face amount of the policy and an indexed figure for the premiums previously paid and deductible in calculating taxable income</li> <li>50. Gifts of Canadian cultural property should be specifically excluded from the computation of net income under the alternative minimum tax</li> </ol>	<p><b>A plan for action</b></p> <ol style="list-style-type: none"> <li>1. The Government of Canada, through the Minister of Communications, should immediately establish a National Advisory Committee on the Status of the Artist, and provide sufficient human and financial resources to effectively represent the Canadian artistic community to all levels of government in the development, implementation and monitoring of legislative or policy changes that affect the artistic profession.</li> </ol> <p><b>Taxation</b></p> <ol style="list-style-type: none"> <li>2. We recommend that the unique nature of the artistic profession henceforth be recognized in the <i>Income Tax Act</i>, and that artists be granted a specific status similar to that of farmers and fishermen</li> <li>3. We recommend that the artist's dual status (employee and/or self-employed) be recognized and applied within the <i>Income Tax Act</i>, based on artists' needs</li> <li>4. We recommend that a level of non-taxable income be established below which the artist would not be taxed under the <i>Income Tax Act</i>. We suggest that this level of income be comparable to that granted to Canadian Members of Parliament (\$18,700 in 1986)</li> </ol>	<p><b>Summary of Recommendations</b></p> <ol style="list-style-type: none"> <li>1. That the <i>Income Tax Act</i> be amended to define the term "professional artist" in line with the criteria set out in Revenue Canada's Interpretation Bulletin IT-504 and to define such other related terms as might be required.</li> <li>2. That section 111 of the <i>Income Tax Act</i> be amended so that losses by professional artists be deductible from other sources of income using the statutory equivalent of the special definition of "reasonable expectation of profit" now being applied administratively by Revenue Canada</li> <li>3. That the <i>Income Tax Act</i> be amended to allow employed professional artists to deduct costs associated with artistic employment from their employment income</li> <li>4. That the <i>Income Tax Act</i> be amended to extend to professional artists the right to use block averaging and the modified accrual basis of accounting as is currently given to farmers and fishermen</li> </ol>

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artistic works from other income, or if full deduction cannot be provided for, that annual limitations be allowed with carry forward provisions for excess expenditures which allow these to be applied to future income from artistic activities.				
5.0 We recommend that the <i>Income Tax Act</i> be amended to allow an artist whose chief source of income involves artistic endeavours to elect to average income in five-year blocks	5. That reassessments relating to the business losses project computed before April 1, 1984 be conducted on the same basis as those subsequent to that date regardless of the existence of waivers	51. The appreciation on tangible and intangible property donated to non-profit arts organizations should be exempt from capital gains tax	5. We recommend that the <i>Income Tax Act</i> be amended to permit the artist to average that part of his or her income which is derived from artistic work over a period of five (5) years, as is now provided for specific occupational categories within the Act	5. That organizations designed to promote the arts and the welfare of artists be accorded special status under the <i>Income Tax Act</i> which would allow them to issue receipts giving tax deductions for gifts, in the same way as registered Canadian amateur athletic associations do now.
6.0 We recommend that Revenue Canada's current assessing practices be reviewed to recognize that:  (a) Arts Grants "A", qualifying Arts Grants "B", Short Term Grants, Project Cost Grants, and some Explorations Grants be treated as business income where applicable under s.9 of the Act, and all bona fide business expenses incurred on the project be deductible from related income with limitations applicable to other sources of income;  (b) the travel allowances awarded by the Council when incurred for business purposes (that is, other than for study) are to be taken into income and the related expenses allowed as deductions therefrom	6. That in the future, where the professionalism of artists and writers is at issue and results in a changed view of their status, that the change be effective for that year and future years, not retrospectively, provided their course of action was reasonable in the circumstances	52. The <i>Canadian Cultural Property Export and Import Act</i> should be amended to specifically provide for the deduction of gifts of undivided interest in designated cultural property	6. We recommend that the <i>Income Tax Act</i> be amended to permit artists to use a modified accrual method for accounting purposes, similar to that used by farmers and fishermen	6. That project grants and travel allowances received by employed professional artists be treated for income tax purposes as income from business to allow them to offset costs associated with meeting the terms of getting the grants or allowances.
6.1 We recommend that in situations where the main purpose of the award is clearly educational no special treatment be accorded the artist				
6.2 We recommend that Revenue Canada's current assessing practices be reviewed to recognize that Arts Grants "A", qualifying				

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June 1986

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August 1986

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Arts Grants "B", Short Term Grants, Project Cost Grants, and some Explorations Grants intended to provide free time for work on personal creative projects be treated consistently by the various district offices as business income as indicated in Recommendation 6.0, without either limiting the related expenses to the reasonable expectation of profit test or classifying the amounts as research grants and thereby limiting the expenses to the grant received.

*Visual Artists and Writers*

7. That section 111(1) of the *Income Tax Act* be amended to permit the deduction of losses from professional artistic activities.

8. That the criteria for professionalism be incorporated into an Interpretation Bulletin.

9. That the professionalism test define reasonable expectation of profit in the context of the visual arts and writing

53. The *Income Tax Act* should provide for the deduction of certain non-reimbursed volunteers' expenses

54. The maximum deductible limit now applicable to charitable donations for income tax purposes should be removed.

55. a) Fifty per cent of the cost of individual subscriptions to Canadian performing arts series of non-profit arts organizations and to Canadian literary and art periodicals, and of the cost of individual and family memberships in Canadian museums and public art galleries should be deductible from income tax

7. We recommend that

a) The *Income Tax Act* be amended so that the artist would no longer be subject to the criterion of reasonable expectation of profit  
b) Until the *Income Tax Act* is amended in accordance with a), any artist, regardless of taxation status, be allowed to deduct expenses, costs and losses incurred in art production from any income sources. The artist should also be allowed to deduct legitimate expenses incurred to maintain the currency of professional skills.

8. We recommend that project grants, awards and travel allowances be considered as business income and that the related expenses be deductible

9. We recommend that for donations and legacies, Revenue Canada grant artists the same privileges currently available to collectors, that tax legislation provide financial incentives to encourage artists to donate their works to charitable organizations, and we further recommend that

7. That serigraphs and limited edition prints should be exempt from federal sales tax

8. That steps be taken by the Government to examine the entire issue of the deductibility of charitable donations, including gifts to arts-oriented groups, with a view to increasing private donations and encouraging volunteerism

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		b) Fifty per cent of the cost of the purchase by an individual of an original work of art of a living Canadian artist that has not been previously sold, should be a deductible expense for income tax purposes, up to a total of \$2,500 in any one calendar year		the maximum deductible limit for income tax purposes be removed
	10. That the professionalism test de-emphasize the timing of profits and include the existence of revenue as only one of a number of other criteria	56. a) Original prints by Canadian artists should be exempt from federal sales tax b) Provincial sales tax should not apply to purchases of Canadian works of art. c) Publicly supported arts organizations should be exempt from amusement taxes.	10. We recommend that federal sales tax (FST) on limited edition prints and serigraphs be abolished	
	11. That all losses resulting from direct artistic or writing expenses be fully deductible	57. Sponsorship by business of the expenditures of arts organizations, up to an amount of \$10,000, should be eligible for a tax credit of 50 per cent, such a credit to be offset against the corporation's deductible allowance for such expenses.	11. We recommend further that, in order to resolve all the problems posed by FST, a joint committee with equal representation (Revenue Canada, Finance, Communications/ cultural community) be formed in the near future with the mandate to reach agreement on taxation, customs and excise matters, particularly regarding the issues raised in the Disney Report, in accordance with recommendation 31 of the Sub-committee on the Taxation of Visual and Performing Artists and Writers	
	12. That indirect expenses normally carried by a taxpayer in any event be deductible only to the point where they reduce revenue to nil.	58. a) Artists should be allowed to average their incomes on a five-year basis for income tax purposes b) Musicians with employee status should be eligible for a capital cost allowance for the capital value of their instruments, and a deduction for the cost of the instrument's upkeep	12. We recommend that the Income Tax Act be amended so that cultural and artistic organizations dedicated to national cultural development can avail themselves of the same privileges now granted to charitable organizations.	
	13. That Revenue Canada utilize the criteria of professionalism as an interpretative aid	59. a) Governments should allow for the payment of a deceased person's taxes with works of art, assessed at fair market value.	13. We recommend that general and generous tax incentives be established to encourage cultural investment for individuals as well as for large and small businesses.	

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14 That if that is not feasible, the government amend the *Income Tax Act* to permit the flexibility which would result from the application of the criteria

15 That Revenue Canada be willing to assign a nil value to the inventory of professional visual artists

16 That consideration be given to statutory changes to permit artists to use the modified accrual system at their option

b) Artists should be allowed to pay their income tax during their lifetime with works of art they have created, assessed at fair market value

60. The *Income Tax Act* should be amended to include registered Canadian arts organizations as eligible recipients of tax-deductible charitable donations.

14. We recommend the formation of a standing joint committee with equal representation (Revenue Canada, Finance, Communications/artist community) to solve all the problems arising from interpretation of the *Income Tax Act* as it affects artists, their works and productions

16 We endorse the adoption of the "indicator matrix" as shown in Appendix B of the report of the Sub-committee on the Taxation of Visual and Performing Artists and Writers concerning the criteris to be used in the definition of the professional artist

*Collective bargaining rights and the artist*

16 We recommend that

a) Within the next session of Parliament, legislation should be enacted to recognize organizations representing self-employed professional artists as collective bargaining agents. This should include the necessary administrative mechanisms required to apply such legislation

b) The departments of Justice and Consumer and Corporate Affairs should declare a moratorium on the investigation of artistic organizations involved in collective bargaining under the provisions of the *Combinations Investigation Act* until legislation granting collective bargaining rights to such organizations is enacted.

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	<p><i>Performing Artists</i></p> <p>17. That Revenue Canada revise IT-312 to reflect the <u>Mermaid</u> case and clarify the role of duration in a contract.</p> <p>18. That the criteria listed in the Bulletin indicating employment and self-employed status be revised.</p> <p>19. That factors in the Bulletin allegedly indicating employment status but in fact essential to the organization of any group of performers, employees or not, be excluded.</p> <p>20. That the assumption of a heavy burden of expenses create presumption of self-employment for all performing artists.</p> <p>21. That the cost of music, acting or general lessons be deductible for self-employed performers even if unrelated to a particular role.</p> <p>22. That section 8 of the Income Tax Act be amended to allow deductions of all expenses and capital cost allowance incurred by symphony musicians for the purchase and upkeep of their musical instruments.</p> <p>23. That performing artists be eligible for unemployment insurance coverage regardless of their status for taxation purposes.</p> <p><i>Academics</i></p> <p>24. That Revenue Canada develop and exercise expertise in applying the reasonable expectation of profit test to academic activities where the application of the test poses the same kinds of problems that were identified for the professional visual arts and writing.</p> <p>25. That the government address the question of employee deductions in general with a view to assisting those groups whose expenses demonstrably exceed the standard now permitted.</p>			



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	<p><i>Additional Considerations</i></p> <p>26. That the government develop an averaging system for taxpayers with fluctuating incomes that will be available for those whose marginal rate of tax is below the maximum. The system should not involve an initial increase in cash payable.</p> <p>27. That grants (other than educational grants) awarded to professional artists be treated as business income from which expenses can be deducted, subject only to the less limitations in Recommendation 12.</p> <p>28. That Revenue Canada update IT-257 to reflect the changes in the nature of Canada Council grants following the 1978 formation of the Social Sciences and Humanities Research Council of Canada.</p> <p>29. That the form currently entitled "Notice of Assessment" be redesigned so that taxpayers will be adequately informed about the nature of the form and the powers of Revenue Canada to assess in detail at a later time.</p> <p>30. That the tax system provide financial incentives for visual artists to donate their own works of art to charity.</p> <p>31. That the government consider the federal sales tax, customs and excise issues identified by the Disney Report with a view to resolving longstanding areas of complaint by the artists community.</p>			

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